Natural Resources Canada | Ressources naturelles Canada

Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 23

November 30, 2012

Canada

Copies of this publication may be obtained free of charge from:
Natural Resources Canada
Petroleum Resources Branch
580 Booth Street, 17th Floor
Ottawa, Ontario K1A 0E4
Phone: (613) 992-9612
TTY Service: (613) 996-4397 (Teletype for the hearing-impaired)
Fax (613) 992-0614
Email: prb.drp@nrcan-rncan.gc.ca
Web site: http://nrcan.gc.ca/eneene/focinf-eng.php

© Her Majesty the Queen in Right of Canada 2012

ISSN 1918-3321

Aussi offert en français sous le titre *Info-Carburant*

Fuel Focus

Volume 7, Issue 23
November 30, 2012

National Overview

Canadian Retail Gasoline Prices Increased less than 1 Cent per Litre from Last Week

For the week ending November 27, 2012, Canadian average retail gasoline prices increased marginally from the previous week by 0.4 cent per litre to $1.23 per litre. Overall, pump prices are 3 cents per litre higher than at this time last year.

Retail gasoline prices remained firm despite a decline in wholesale gasoline prices in most selected centres. Prices fluctuated by 1 cent per litre in the last four weeks. Wholesale prices were also buoyed by slightly higher crude oil prices as a result of the Middle-East conflict.

Diesel fuel and furnace oil prices increased by 0.3 cent per litre from last week to $1.22 and $1.16 per litre, respectively.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

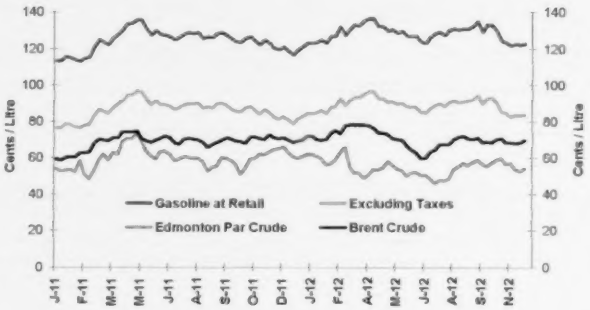
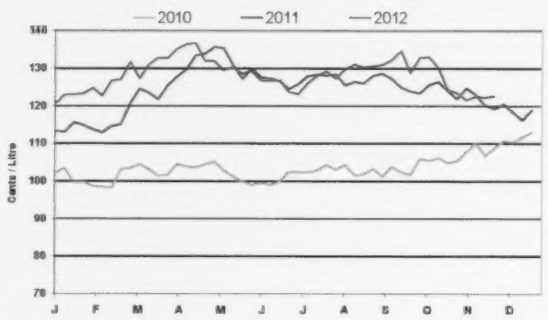


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Domestic Gasoline Sales Up 5.4%:** Motor gasoline sales increased 1.6 billion litres (5%) to 31 billion litres from January to August 2012 compared to the same period in 2011. Diesel fuel sales rose by 0.4 billion litres (2%) to 20 billion litres, while light fuel oil (furnace oil) decreased by 0.2 billion litres (10%) to 2 billion litres in the same time period. (Source: NRCan and Statistics Canada)
- **Expansion to the Proposed Line 9 Reversal to Montreal**: Enbridge Inc. later this month plans to file an application for a Line 9 reversal capacity of more than 300,000 barrels of oil per day from Nanticoke, Ontario, to Montreal. The company is also looking at further expansions to Line 9, perhaps with more pumping stations that increase capacity by another 100,000 barrels per day. The application will be reviewed by the National Energy Board. Although some groups have raised concerns that the line would transport dilbit (diluted bitumen), in fact the Line 9 reversal is expected to transport mainly light crude to Suncor Energy Inc.'s Montreal refinery and Valero's Quebec City refinery. These refineries were not designed to handle the heavier crudes like dilbit. Since Line 9 only goes to Montreal, Valero is looking at moving the crude beyond these points by rail or barge and is asking Enbridge to consider an extension to Quebec City from Montreal. (Source: Daily Oil Bulletin, November 21, 2012)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-11-27	Previous Week	Last Year
Gasoline	122.6	+0.4	+3.4
Diesel	122.3	+0.3	-10.2
Furnace Oil	116.5	+0.3	0.0

Source: NRCan

In this Issue

	page
National Overview	1
Recent Developments	1
Retail Gasoline Overview	2
Wholesale Prices	3
Refining and Marketing Margins	4
Crude Oil Overview	5

Retail Gasoline Overview

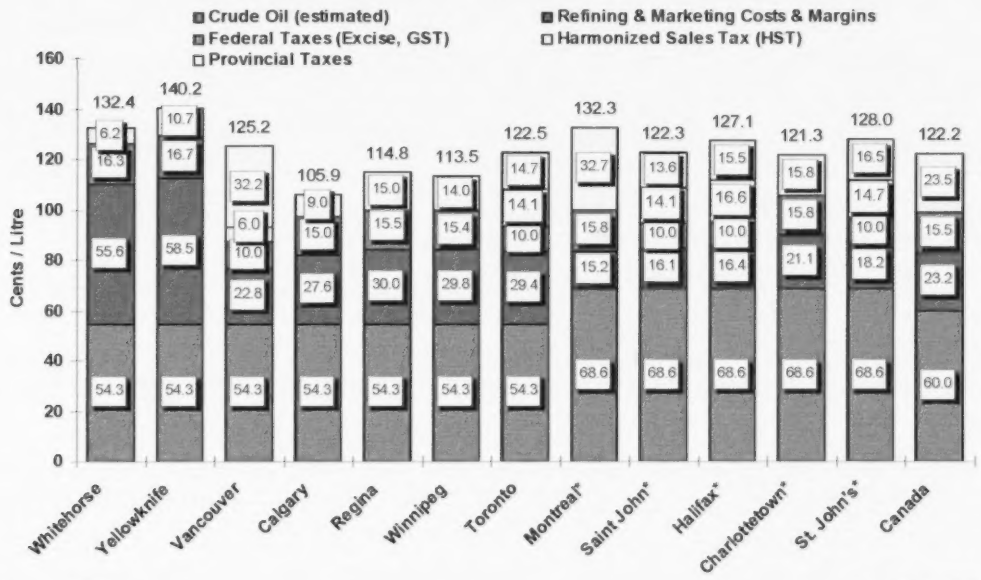
For the period ending November 27, 2012, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.22 per litre, a decrease of 1 cent per litre compared to the price in the previous report of November 16, 2012. Compared to the same period in 2011, the average Canadian pump price is nearly 1 cent per litre higher.

The **four-week average** crude component was 60 cents per litre, a decrease of 1.5 cent compared to two weeks ago. Crude oil prices are 6 cents per litre lower compared to the same time last year.

Average retail gasoline prices in Western centres decreased by 5 cents per litre to $1.15 per litre when compared to the previous report and ranged from $1.06 to $1.25 per litre. Average prices in Eastern cities remain unchanged at $1.26 per litre from the previous week and ranged from $1.21 to $1.32 per litre.

At the national level, refining and marketing costs and margins registered an increase of 1 cent per litre to 23 cents per litre. This is an increase of nearly 6 cents per litre compared to the same time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (November 6 to 27, 2012)



Source: NRCan

** Regulated Markets*

Canada's Dual Crude Oil Market and its Influence on Gasoline Prices

According to a Statistics Canada study released November 23, 2012, and included in the October 2012 issue of the Consumer Price Index, for much of the last decade, gasoline prices have changed at a more or less similar pace across the provinces. A reason for this is that changes in the cost of crude oil have had a similar impact on changes in the price of petroleum products, including gasoline, across the country.

Starting in 2011, rates of change in gasoline prices, as measured by the Consumer Price Index (CPI), have begun to diverge. In general, gasoline prices have increased at a slightly faster pace in the central and eastern provinces than in the west, resulting in a spread between some provincial gasoline indices.

This recent spread in price indexes for gasoline is the largest in 10 years. It is associated with the dual crude oil market in Canada and the recent price differential between crude oil benchmarks.

Consumer spending on gasoline accounts for a relatively large share of total household expenditures. At 5.8%, gasoline has one of the largest 'weights' in the CPI's 2009 basket of goods and services. This means that Canadians spent, on average, 5.8% of their total household budget on gasoline. Therefore, changes in gasoline prices can affect consumer price indices for Canada and the provinces.

Source: The Daily, http://www.statcan.gc.ca/daily-quotidien/121123/dq121123b-eng.htm

Wholesale Gasoline Prices

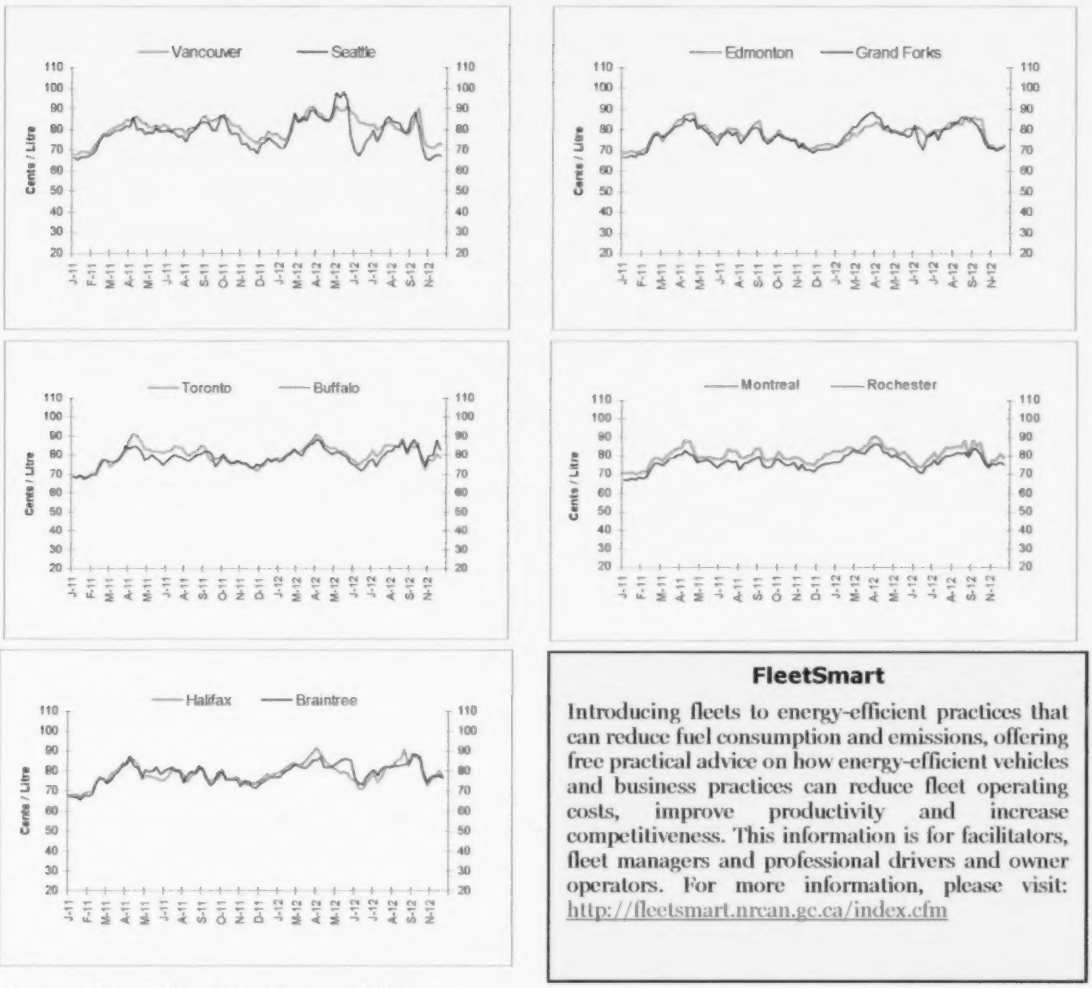
Wholesale gasoline prices, compared to the previous week, continued to decline in six of the ten centres for the **week of November 22, 2012**. Overall, price changes ranged from a decrease of nearly 5 cents per litre to an increase of almost 2 cents per litre.

Wholesale gasoline prices in Eastern markets, in both Canada and the United States, declined from 1 to nearly 5 cents per litre compared to the previous week, ending the period in the 76 to 83 cent-per-litre range.

Wholesale gasoline price changes in Western centres ranged from a decrease of 1 cent per litre to an increase of 2 cents per litre and ended the period between 67 and 73 cents per litre.

Note: Prices at Braintree were revised for the period of September 27 to November 8, 2012, as Global refinery at Braintree, Massachusetts had temporarily stopped reporting. The refinery resumed reporting prices on November 15, 2012.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending November 22, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

FleetSmart

Introducing fleets to energy-efficient practices that can reduce fuel consumption and emissions, offering free practical advice on how energy-efficient vehicles and business practices can reduce fleet operating costs, improve productivity and increase competitiveness. This information is for facilitators, fleet managers and professional drivers and owner operators. For more information, please visit: http://fleetsmart.nrcan.gc.ca/index.cfm

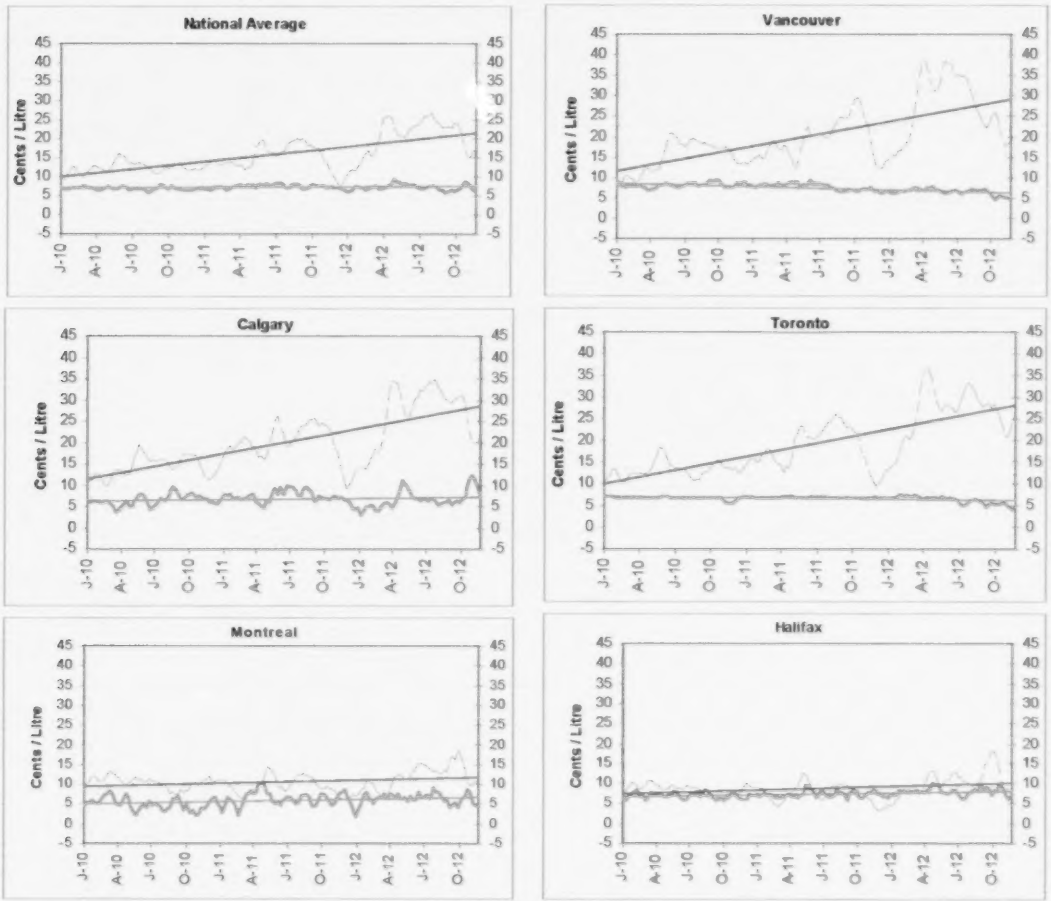
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins showed a steady decline in October, reflecting a decline in demand with the end of the summer driving season and a more than adequate supply in the distribution system. The trend was reversed in the last few weeks as refining margins firmed up in reaction to a drawdown on U.S. gasoline inventories. This also reflects the fact that wholesale gasoline prices have been increasing at a faster pace than crude oil prices.

Overall, marketing margins hovered around 6 cents per litre. Marketing margins for the five centres ranged from a low of 4 cents per litre to a high of 7 cents per litre. Marketing margins have to cover the costs associated with operating an outlet and generate a profit for the station owner.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending November 27, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

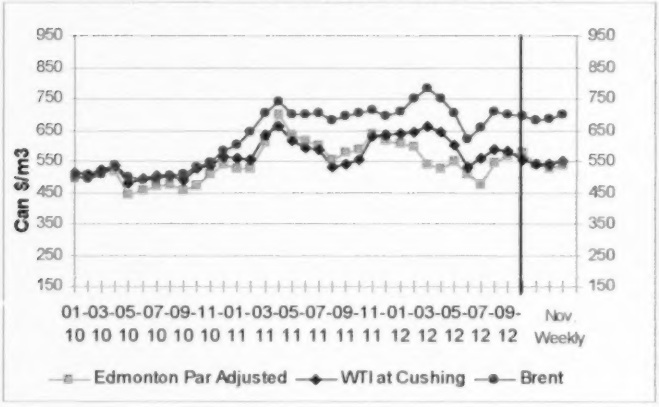
Moderate Rise in Crude Oil Prices and Increased Gap between Brent and WTI Prices

For the week ending November 23, 2012, prices for the three marker crudes averaged between $537/m^3$ and $697/m^3$, (US$86 to US$111 per barrel). Compared to the previous week, the price for the three benchmarks increased by $11/m^3$ (US$2 per barrel). While the price of Edmonton Par dipped below WTI, the price gap between WTI and Brent crude oil has increased to $146/m^3$ (US$23 per barrel) for the week ending November 23, 2012.

Tensions between Israel and Hamas in the Gaza territory firmed up global crude oil prices. The price gap between WTI and Brent is mainly due to distribution constraints in the U.S. midwest and the lack of pipeline capacity for WTI and other North American crudes to reach global markets. In contrast, Brent crude oil, of similar quality, can be transported easily to coastal refineries such as those in Eastern Canada due to its coastal location.

According to the U.S. Energy Department, the demand for liquid fuels in the United States has declined by 1.5% this year partly due to the economic slowdown and increased fuel efficiency in cars. This, combined with reduced demand for petroleum products in Europe, helped push crude oil demand downward and moderate the rise in global crude oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-11-23		Change From:			
			Previous Week		Last Year	
	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl
Edmonton Par	537.51	85.77	+11.80	+2.35	-110.37	-12.91
WTI	550.83	87.92	+11.19	+2.29	-86.98	-9.30
Brent	696.62	111.19	+11.12	+2.41	-6.95	+3.95

Source: NRCan

New Standards to Control Pipeline Corrosion

Researchers have developed the first-ever standard practices to help industry select the best corrosion inhibitors for pipelines. Many factors can cause pipeline failures, including overpressure, weld resistance, joint issues and construction damage. Yet, in the last 15 years, almost 60% of oil and gas production pipeline incidents in Canada have been caused by internal corrosion.

Adding corrosion inhibitors, or chemical substances that decrease corrosion rates, is one of the most effective methods to control internal corrosion of pipelines. However, no single inhibitor suits all situations, which creates a challenge for industry when it comes to selecting the best product for the job.

To help oilfield and refinery industries select and use the best corrosion inhibitors, Natural Resources Canada's CanmetMATERIALS, CanmetENERGY-Devon laboratories and industry partners have developed five standards for the testing and use of corrosion inhibitors. For more information, please visit: http://www.nrcan.gc.ca/science/story/6606